STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 99-666

September 7, 2000

CENTRAL MAINE POWER COMPANY,	)	
Request for Approval of Post-Merger	)	STIPULATION
Alternative Rate Plan (ARP2000)	)	

This proceeding is designed to provide a mechanism for post-restructuring, performance-based regulation ("PBR") applicable to Central Maine Power Company's ("CMP" or the "Company") distribution services. This proposed Alternative Rate Plan ("ARP2000") provides enhanced benefits to customers and CMP similar to those that were achieved under the ARP adopted in December 1994, by the Commission in Docket No. 92-345(II), which expired on December 31, 1999 ("ARP95").

THE UNDERSIGNED, BEING PARTIES TO THIS PROCEEDING, AGREE AS FOLLOWS:

1. **<u>Purpose</u>:** It is the purpose of this Stipulation to resolve all issues in this docket, except as otherwise specified herein, for the purpose of avoiding unnecessary litigation and expense and to jointly offer the Commission a single comprehensive PBR mechanism consistent with the objectives and guidance set forth by the Commission in its January 4, 2000, Order in Docket No. 99-411. ARP2000 builds on the success of ARP95 but includes changes from ARP95, reflecting passage of Maine's restructuring law and the resulting transition to retail access, whereby CMP is now a transmission and distribution ("T&D") company, having sold its generation. In addition, ARP2000 reflects the fact that the Company is merging with Energy East, the holding company for New York State Electric and Gas ("NYSEG"), among other utility and non-utility operating

companies. As a result, ARP2000 provides the vehicle for CMP and Energy East to share merger synergies with CMP's customers.

2. **ARP2000 Benefits:** The Parties to this Stipulation support the continued use of PBR as set forth in this Stipulation for the period 2001 through 2007 for the following reasons: a higher degree of price stability and predictability; risk shifting away from customers; incentives to promote cost efficiency; mechanisms to ensure continued high levels of customer service; and flexible pricing to retain customers, to reduce cost shifting, and to promote economic development.

3. **Scope:** This ARP2000 rate cap plan applies only to CMP's State jurisdictional distribution revenue requirement and excludes revenue requirements related to stranded costs, which will be periodically adjusted in accordance with Section 3208 of Maine's Restructuring Law, and transmission, which is subject to FERC jurisdiction.

4. **Effective Date and Term:** ARP2000 shall take effect January 1, 2001, and shall have a term through December 31, 2007, with price changes, if any, occurring on July 1, in the years 2001 through 2007. As with ARP95, the initial price change (in 2001) will not include earnings sharing (Paragraph 11) or service quality penalties (Paragraph 12), which will begin to be measured on January 1, 2001, and both of which are to be reflected, if applicable, beginning with the July 2002 price change.

5. **Price Cap Mechanism:** Each July 1, beginning on July 1, 2001, CMP's core distribution rates (the beginning rates are shown in Attachment 1) will change to reflect a Price Index ("PI") subject to Paragraph 13. The PI will be calculated under the following formula:

PI = Inflation index - productivity offset +/- (mandated costs +/- net capital gains and losses) +/– expiring amortizations + earnings sharing – any service quality penalties

In applying this formula, the inflation index and productivity offset will be included directly as percentages. The other items will initially be dollar amounts that will be converted to percentages for inclusion in the formula. The conversion to percentages (other than those addressed in Paragraph 10) will be accomplished by dividing the sum of the dollar amounts by prior year revenues for billed sales for distribution service (including targeted rates and contracts at core distribution rates), not including stranded costs. For the year 2000, the revenues for billed sales for distribution services shall be calculated using the distribution rate elements in Attachment 1 and actual year 2000 billing units. The resulting PI will be applied to distribution rate elements which, at the beginning of ARP2000, are as set forth in Attachment 1. See Attachment 2 for an example of the price cap formula calculation. Other than changes in distribution rates pursuant to the operation of the price cap mechanism, Central Maine Power Company's distribution rates in no event will change prior to January 1, 2008 from any filing for base rates under 35-A M.R.S.A. Section 307 or 35-A M.R.S.A. Section 1322; as described in Paragraph 3 of this Stipulation, stranded costs and transmission rates are not subject to this limitation.

6. **<u>Inflation Index</u>:** The index used for measuring inflation will be the Gross Domestic Product – Price Index ("GDP-PI"), chain type, as reported by the U. S. Department of Commerce, Bureau of Economic Analysis. The annual inflation rate will be calculated as the percentage change in the fourth quarter of the most recent year from the fourth quarter for the preceding year.

7. **<u>Productivity Offset</u>:** For each price change, the productivity offset will be as follows:

Price Change Taking Place In:	Productivity Offset
2001	equal to inflation
2002	2.00%
2003	2.25%
2004	2.75%
2005	2.75%
2006	2.75%
2007	2.90%

8. **<u>Mandated Costs</u>:** There are two types of mandated costs that are beyond the Company's control. First there are <u>nonrecurring</u> events as a result of *force majeure*, which, by way of example, shall include events such as storm, flood, riot, terrorism, sabotage, war, strike or labor disturbance (other than by CMP's bargaining units) or acts of God. The second type of mandated costs are <u>recurring</u> or nonrecurring in nature and include ongoing costs that result from accounting, federal or state legislative, regulatory or tax changes. This second type of mandated cost will include either cost increases, decreases or changes in revenue caused by the triggering events described herein.

Aggregate mandated costs during any calendar year in excess of $3 million (with inclusion only of each item having a revenue requirement effect of greater than or equal to $150,000) will be recovered through the annual adjustment in Paragraph 5. When a nonrecurring mandated cost event occurs or upon the occurrence of a recurring mandated cost, the Company may defer on its books of account (without any presumption of the ratemaking treatment other than as described in this Stipulation), the mandated cost for future recovery in the next rate adjustment proceeding. Mandated costs that are nonrecurring in nature will be removed from rates following full recovery of the item. Nothing in this Paragraph shall be read to modify the cost deferral arrangements agreed to in Paragraphs 28 and 29 of the Stipulation in Docket No. 97-580 approved by the Commission's Order of February 24, 2000 and Paragraph 7 of the Stipulation in Docket No. 99-185 approved by the Commission in its Order dated August 28, 2000. The Company may request an accounting order to defer for future recovery *force majeure*-type mandated costs that may occurbetween the date that the Commission approves this Stipulation and December 31, 2000.

9. **Capital Gains and Losses:** Capital gains and losses from the sale of operating property shall be treated as follows: (a) to the extent any individual capital gain or loss incurred in a year exceeds $150,000, all such items shall be combined to determine a total net capital gain or loss; (b) any total net capital gain or loss shall be netted against, or added to, mandated cost item(s) described in Paragraph 8 of this Stipulation; (c) to the extent the netting described in subparagraph (b) hereof results in a remaining total net capital gain or loss in excess of $150,000, such amount shall be passed through, or collected from customers in the same manner as a "nonrecurring mandated cost."

10. **Expiring Amortizations:** The 2002 and 2003 rate changes shall reflect the reduction and termination of amortization expenses in March 2003, for ice storm, reconcilable DSM costs, 1999 deferred DSM costs and employee transition plan costs. The 2003 rate change shall also reflect the revenue requirement effect of the elimination from rate base upon full recovery of the ice storm costs, reconcilable DSM costs and 1999 deferred DSM costs. Pursuant to this paragraph, the July 2002 price change shall

reflect a $6,924,000 reduction, and the July 2003 price change shall reflect a $17,951,000 reduction. These amounts shall be converted to percentages using a distribution revenue amount of $239 million. The specific amounts of each of the revenue requirement changes and the resulting percentage change by year is set forth in Attachment 3.

11. **Earnings Sharing:** Beginning with the July 2002 price change, the price change will include fifty percent (50%) of any revenue deficiency below a Return on Equity ("ROE") of 5.20% for the Company for the prior calendar year. The return on equity, which will be the starting point for determination of whether the profit-sharing mechanism is triggered, will be computed on a "financial reporting basis" adjusted as required by law or regulation to exclude revenues, expenses and profits/losses that must be removed for rate recovery. Amortization of the acquisition adjustment resulting from the Energy East/CMP merger and the unamortized balance of the acquisition adjustment shall be excluded from the numerator and denominator of the earnings calculation respectively.

The common equity amount to be used for this calculation shall be the Company's beginning/ending average common equity balance, excluding amounts related to any unamortized acquisition premium included in the common equity amount. The common equity for this calculation excluding any unamortized acquisition premium shall be capped at 47% of total capital, which shall include common equity, preferred stock, short-term debt, long-term debt, and any current maturities or sinking fund requirements of debt and preferred stock.

There shall be no cap on CMP's earnings and there shall be no earnings sharing if CMP's earnings rise above any level; furthermore, the Parties agree that if the

Commission is asked to review CMP's revenue requirement during the seven-year term of ARP2000, the Parties shall oppose such review or resetting as in contravention of this Stipulation. Attachment 4 includes a detailed description of the methodology to calculate the earnings sharing component of ARP2000.

12. **Service Quality Penalties:** Penalties will be calculated as described in Paragraph 24. The first penalty adjustment, if any, will be made in July 2002 reflecting performance for the preceding year. The adjustment will be in rates for one year. No penalties shall be imposed for performance in 2007 under the terms of this Stipulation.

13. **Application of PI to Rate Elements:** CMP will adjust each individual distribution rate element by the PI to produce new distribution rates. This will ensure that no customer’s bill will increase or decrease more than the PI. The individual distribution rate elements that serve as the starting point rates are included at Attachment 1. The Parties also agree that if and when the Commission opens a rate design proceeding to address broader rate design issues, the rate elements contained herein are subject to any rate design changes adopted by the Commission in such a proceeding and, to the extent the Commission orders subsequent ARP2000 price changes to be applied differently than described herein, the rate design order shall govern. The parties agree that, when the Commission next sets stranded costs, nothing in this Stipulation is intended to predetermine the allocation of those costs.

14. **System Benefits Charge:** If the Maine Legislature enacts legislation providing for a system benefits charge or any similar charge which is intended to be included in or added to the rates of distribution utilities in Maine for the purpose of supplementing, replacing or otherwise modifying the renewable requirements contained

in 35-A M.R.S.A. Section 3210 (or for satisfying any other legislative purpose), CMP's costs resulting from such legislation will be treated as a special mandate to be included in rates with no minimum floor or aggregate threshold for recovery. Specific items contained in any systems benefit legislation, to the extent they are already included in CMP's rates established in Docket No. 97-580, will be removed from rates and included in the special mandate calculation on a revenue neutral basis. To the extent that the legislature modifies the system benefits charge subsequent to enactment, the cost changes caused by such modifications will be reflected in rates on a revenue neutral basis.

15. **Customer Service and Reliability Index:** The Customer Service and Reliability Index ("CSRI") is based on the indicators described in Paragraphs 16 through 23. A baseline is indicated for each of the the indicators. If the Company's performance does not meet the established baseline for any of the indicators in any year, the Company may be subject to penalties according to the penalty mechanism described in Paragraph 24. No penalties will be imposed under the terms of this Agreement based on performance in 2007. For purposes of customer service and reliability indices, service areas are Augusta, Brunswick, Waterville, Dover, Farmington, Skowhegan, Rockland, Portland, Alfred, Lewiston and Bridgton.

16. **Customer Average Interruption Duration Index ("CAIDI"):** The baseline is set at 2.58 hours/year. When more than 10% of the customers in a service area are affected by outages, all outages occurring in that service area associated with that event will be excluded for the duration of that outage from the calculation of this indicator.

17. **<u>System Average Interruption Frequency Index ("SAIFI")</u>:** The baseline is set at 1.80 interruptions per year. When more than 10% of the customers in a service area are affected by outages, all outages occurring in that service area associated with that event will be excluded for the duration of that outage from the calculation of this indicator.

18. **<u>MPUC Complaint Ratio</u>:** The baseline is set at 1.17 complaints per 1,000 customers per year. Complaints will be counted in the year they are accepted by the Consumer Assistance Division of the MPUC.

19. **<u>Percent of Business Calls Answered</u>:** The baseline is 80% of calls answered within 30 seconds. For purposes of this indicator, business calls are defined as calls received on the Company's customer service business line as specified on customer bills. Calls are considered answered once they are initially answered by a customer representative or the Company's Interactive Voice Response (IVR) system. When a customer opts to speak to a customer representative, any additional wait time will be added to the initial wait time.

On days when more than 10 percent of customers in a service area are affected by outages, the Company shall exclude all calls on those days from the calculation of this indicator. The Company may also request permission from the Commission to exclude calls from the calculation of this indicator on days when specific events beyond the Company's control cause substantial increases in call volumes ("discretionary exclusions"). CMP shall request discretionary exclusions within 45 days of the associated event. The Commission shall rule on all such requests within 45 days of the request.

20. **Percent of Outage Calls Answered:** The baseline is 80% of calls answered within 30 seconds. For purposes of this indicator, outage calls are defined as calls received on the Company's outage reporting line, as specified on customer bills. Calls are considered answered once they are initially answered by a customer representative, the Company's Interactive Voice Response (IVR) system or by the third party high-volume call answering system. In addition, the Company will work collaboratively with the other Parties to ensure that customers who call CMP to report life-threatening emergencies receive information about how to report these situations to the appropriate emergency responders.

21. **New Service Installation:** The baseline is 93% of new services installed and energized by the date promised to the customer. This indicator will be based on a comparison of actual new service installation dates and installation dates promised to customers pursuant to the Company's Customer Service Guarantee.

22. **Call Center Service Quality:** This indicator is based on customer responses to two questions contained on the postcard survey that is mailed to a random sample of customers who call the Company's business line. The first question is "Was the employee you spoke to knowledgeable?" The second question is "Overall, how satisfied are you with the service representative who answered your call?" The percent responding "yes" to the first question and "very satisfied" to the second will be averaged to calculate the indicator. The baseline is 84%. For purposes of this indicator, when a survey question is not answered, it will not be included in the calculation.

23. **Market Responsiveness:** The baseline is 100% of all complete and properly transmitted enrollments received from competitive electricity providers

processed within the timeframes specified in Chapter 322 of the Commission's rules provided, however, that no penalty will be assessed if the point deduction (as described in Paragraph 24) for this indicator is 0.625 points or less.

24. **<u>Penalty Mechanism For Service Quality Indicators</u>:** CMP's annual performance, as measured by the above indicators, will be compared to the established baselines each year. Based on the current number of indicators, each indicator is worth 12.5 points on a 100-point scale. If the Company's performance fails to meet any of the established baselines, points will be deducted for each indicator for which the Company fails to meet the baseline. The deduction will be based on the percentage by which the indicator deviates from the baseline, and point deductions will be rounded to the nearest tenth of a point. For example, if the actual performance deviates from the baseline by 2.5%, the deduction would be 0.3 points (12.5 x .025).

A revenue reduction of $400,000 will be imposed for one year for each point deducted or a proportional amount for each tenth of a point in instances where there is less than a full point. The total maximum revenue reduction will not exceed $3,600,000 in any year. No penalty will be imposed if the total point deduction is less than 0.3 points. Point deductions less than 0.3 points for a given year shall be carried over to any penalty calculation until a subsequent ARP2000 proceeding where penalties are imposed. Penalty computation examples are provided in Attachment 5.

25. **<u>Reports</u>:** The Company will file the following reports, in addition to any reports required by other Commission Rules or Orders or identified in Attachment 7, regarding service quality and reliability:

a. Bi-monthly reports on all Customer Service and Reliability Index indicators with the appropriate supporting data.

b. Annual Reliability Improvement Report, to include:

(1) Service area specific analysis of service reliability;

(2) Identification of “worst” circuits, analysis, and description of improvements undertaken or planned; and

(3) A description and update of CMP’s power quality program and substation recloser counts.

26. **Customer Report Card:** Each August beginning in 2002 and based upon the prior year's performance, CMP will distribute an annual report card to all customers on the Company’s service quality and reliability performance for the previous calendar year as measured by the CSRI indicators. The report will list the indicators and baselines and will indicate the Company’s actual performance for the previous year. Any penalties imposed pursuant to the penalty mechanism described above will also be reported.

27. **Mid-Period Review**: On or before June 1, 2003, any party may request that the Commission modify CMP’s service quality indices to be effective January 1, 2004. The Service Quality indicators agreed to in this Stipulation will have the presumption of correctness, and any party seeking to modify or add to any of the Service Quality indicators will have the burden of proving that the modification or addition is reasonable and appropriate.

The parties agree to target the MPUC Complaint Ratio and the Call Center Service Quality indicators for replacement during the mid-period review. The Parties further agree to work collaboratively with the Commission Staff to develop a new indicator(s) that would replace the Call Center Service Quality and MPUC Complaint Ratio Indicators. If the Parties reach agreement on this new indicator, it would take effect on January 1, 2004 pending Commission approval. In the event that the number of indicators changes as a result of this Paragraph, the point value per indicator will be adjusted accordingly.

28. **Pricing Flexibility:** The Company may change its prices in accordance with the terms and conditions for pricing flexibility as set forth in Attachment 6.

29. **Prudency Reviews:** The Stipulation is not meant to prevent the Commission from reviewing the prudency of the Company's operations and does not preclude any such review either on the Commission's own motion or upon request of another party. Any cost disallowance or other penalties would only be assessed against the Company in a situation where the earnings sharing mechanism was triggered or the Company seeks recovery of a mandated cost that was disallowed. Costs determined by the Commission to be imprudent in a Commission prudency review will be excluded in the calculation of return on equity for purposes of the earnings sharing mechanism as set forth in Attachment 4.

30. **Annual Reporting:** CMP will file specified information each year on March 15 that will be used to compute the annual price changes and to ensure compliance with all aspects of the ARP. Information will include:

(a) price index and associated components;

(b) pricing flexibility information as set forth in Attachment 6;

(c) review of customer service and reliability performance indicators; and

(d) review of CMP's overall compliance with the provisions of the ARP.

The details of the annual reporting process and other periodic reports are more fully set forth in Attachment 7.

31. **<u>End-of-Period Filing</u>:** By May 1, 2007, the Company shall file revenue requirement information for calendar year 2006 consistent with the applicable requirements contained in Section 5 of Chapter 120 of the Commission's rules. The Parties agree that neither this Stipulation nor CMP's submission of the Chapter 120 information shall predetermine post-ARP2000 ratemaking by the Commission.

32. **<u>Accounting Conventions</u>:** ARP2000 is not deregulation either from a ratemaking or an accounting perspective. Rather it is a change in the method employed to regulate price and cost of service recovery. The Company will continue to be subject to Generally Accepted Accounting Principles because the rates under ARP2000 are intended to and meet the criteria of Statement of Financial Accounting Standards No. 71 "Accounting for the Effects of Certain Types of Regulation." In particular, the accounting standards which specifically apply to regulated industries were considered in designing the Alternative Rate Plan.

33. **<u>Requests for Deferrals</u>:** The Company shall be allowed to file a request with the Commission for an accounting order authorizing deferral of costs incurred to produce merger-related synergies when it incurs those costs in the future. Any such filing shall include a summary of costs as well as the expected savings and the time period over which the Company expects to obtain the synergies for the purpose of selecting/electing an appropriate period for amortization. In no event will the amortization period requested go beyond December 31, 2007.

34. **Incorporation of Attachments:** All attachments referred to in this Stipulation are incorporated herein by reference and are intended to be considered as part of this Stipulation as if their terms were fully set forth in the body of this Stipulation.

35. **Legal Effect of the Stipulation:** The execution of this Stipulation by any Party shall not constitute precedent as to any manner of law or fact nor, except as expressly provided herein, shall it foreclose any of the Parties from making any contention or exercising any right, including rights of appeal, in any other Commission proceeding or investigation, or any other trial or action.

36. **Integrated Agreement:** The Parties intend that this Stipulation be considered by the Commission for adoption as an integrated solution to the issues addressed herein which arose in the above-captioned proceeding and as otherwise presented in this Stipulation. The Parties also intend that this Stipulation shall be null and void, and not bind the Parties in the above-captioned proceeding, in the event the Commission does not adopt this Stipulation without material modification.

37. **Acceptance by Commission:** If not accepted by the Commission in accordance with the provisions hereof, this Stipulation shall not prejudice the positions taken by any Party on these issues before the Commission in this proceeding and shall not be admissible evidence therein or in any other proceeding before the Commission.

IN WITNESS WHEREOF, the Parties have caused this Stipulation to be executed by their respective attorneys or representatives, or have caused their lack of objection to be noted by the signature of their respective attorneys or representatives.

CENTRAL MAINE POWER COMPANY

September 7, 2000 By: ______________________________

OFFICE OF THE PUBLIC ADVOCATE

September 7, 2000 By: ______________________________

INDEPENDENT ENERGY PRODUCERS OF MAINE

September 7, 2000 By: ______________________________

INDUSTRIAL ENERGY CONSUMER GROUP

September 7, 2000 By: ______________________________